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NEW MOUNTAIN RAISES $5.1B FUND

BY DAVID CAREY

Private equity may be down, but it's not out when it comes to fundraising. Despite a dearth of debt financing for new deals and a falloff in overall private equity returns, stronger-performing firms can still drum up big dollars.

The latest to do so, New Mountain Capital LLC, wrapped up its third private equity investment vehicle, New Mountain Partners III LP, with just over $5.1 billion in commitments, CEO Steven Klinsky said.

That's more than three times the $1.55 billion New Mountain corralled in 2004 for its second fund. It also puts New York-based New Mountain in a select circle of upper middle-market private equity firms, which include Hellman & Friedman LLC, Kelso & Co., First Reserve Corp. and Sun Capital Partners, whose newest funds have drawn $5 billion to $10 billion.

John Robertshaw, a Credit Suisse Group managing director who helped raise the New Mountain fund, said marketing for it got under way last summer. Demand, he said, was very strong.

Pension funds and other financial institutions pledged $5 billion, and New Mountain's partners put up another $120 million.

"It was a very rapid fundraising," said Robertshaw. "It was oversubscribed, but they set a hard cap of $5 billion, and they stuck with it."

The firm, which Klinsky founded in early 2000 with partners Robert Grusky and J. David Wargo, has 32 investment professionals and $8.5 billion in assets.

New Mountain's first, $770 million fund has delivered a net annual internal rate of return to limited partners of just over 20%, said Grove Street Advisors, an investor. As of Sept. 30, 2007, the second fund, most of whose investments are still unrealized, was showing a 17.5% net IRR, according to the California Public Employees' Retirement System pension fund.

The cornerstones of New Mountain's investment approach are minimal leverage and loads of growth. The firm has a "top down" style, zeroing in on sectors with lots of upside. It has funded some of its deals exclusively with equity.

"We don't use a lot of debt because we're focused on being very defensive and noncyclical on the downside," said Klinsky, a former Forstmann Little & Co. partner. "We pursue returns through business-building and growth."

Because New Mountain depends so little on leverage, the credit market meltdown has not slowed the firm's rate of investing. "We put out $1 billion in equity in the 12 months before the new fund," Klinsky said. "Our deal pace has continued to strengthen."

New Mountain made its first splash in late 2000 with a $115 million investment in publicly traded Strayer Education Inc. It more than tripled its money in Strayer.

In its two latest deals, it invested $400 million in Oakleaf Global Holdings Inc., a provider of waste management services, and pledged up to $200 million to Inmar Inc., a provider of logistics services to supermarkets.

In 2007 it took public three of its companies: business software designer Deltek Inc. and the reinsurers Validus Holdings Ltd. and Paris Re Holdings.

New Mountain's new fund will invest about $300 million on average per deal, Klinsky said. That compares with the second fund's per-deal average of $194 million.

Limited partners will pay New Mountain a 1.75% yearly management fee on their money as well as 20% of gross investment gains. The fund also has an 8% "hurdle rate" — the annual return that LPs must receive before New Mountain collects any incentives.

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